Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Text

LIMITED OFFICIAL USE

PAGE 01 STATE 146074

10
ORIGIN EB-03

INFO OCT-01 EUR-01 ISO-00 /005 R

66621
DRAFTED BY: EB/ORF/FSE:RWAGMAN
APPROVED BY: EB/ORF/FSE:SBOSWORTH
---------- 028643
R 060057Z JUL 74
FM SECSTATE WASHDC
TO AMEMBASSY STOCKHOLM

LIMITED OFFICIAL USE STATE 146074

FOLLOWING REPEAT LONDON 7221 ACTION SECSTATE INFO BRUSSELS, OECD PARIS, PARIS, ROME, BONN, TOKYO, DUBLIN, COPENHAGEN, THE HAGUE, OSLO, OTTAWA JUNE 8,

QUOTE

E.O. 11652: N/A
TAGS: ENRG
SUBJECT: REPORT OF THE 6-7 JUNE MEETING OF THE ECG AD HOC GROUP ON INTERNATIONAL OIL MARKET.

1. FOLLOWING IS TEXT OF REPORT TO BE PRESENTED TO JUNE 17-18 ECG MEETING: CONCLUSIONS ON FUTURE WORLD OIL AVILABILITY AND PRICES MUST BE TENTATIVE BECAUSE WE HAVE HAD NO EXPERIENCE WITH PRICE CHANGES EVEN APPROACHING THE MAGNITUDE OF THOSE IN THE RECENT PAST AND BECAUSE ATTITUDES AND INTENTIONS OF MAJOR PRODUCING COUNTRIES ARE STILL POORLY DEFINED. WE HAVE LITTLE HISTORICAL BASIS FOR ESTIMATING EITHER THE CONSUMPTION OR PRODUCTION RE-SPONSE TO SUCH MAJOR CHANGES IN PRICES.

2. AT PRESENT PRICES IN REAL TERMS, UNDERLYING SUPPLY AND DEMAND FORCES WOULD PROBABLY GENERATE UNDER PRESENT PRODUCTION PLANS A SMALL SURPLUS OF OIL IN THE WORLD MARKET IN THE SHORT RUN (1974-75) AND A GROWING POTEN-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 146074

TIAL SURPLUS IN THE LONGER RUN (UP TO 1985).

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

3. SHORT RUN: THE GROUP CONCLUDED THAT GIVEN THE PRE-LIMINARY ESTIMATES OF OECD AREA GDP GROWTH, CURRENT PRO-DUCTION PLANS WOULD PROVIDE 1-2 MILLION BARRELS A DAY MORE THAN EXPECTED FINAL DEMAND IN 1974. THIS UNDER-LYING SURPLUS IS EXPECTED TO INCREASE SOMEWHAT IN THE FIRST HALF OF 1975 IF OPEC PRODUCTION INCREASE ALONG THE LINES OF CURRENT PLANS. DURING THE FIRST HALF OF 1974 THE SURPLUS AVAILABLE SUPPLY HAS BEEN MASKED BY SUB-STANTIAL BUILDING OF COMMERCIAL, ENDUSER AND EMERGENCY STOCKS IN MANY CONSUMER COUNTRIES AND IN SLOWER MOVING TANKERS.

4. THE CRUDE OIL MARKET WILL NOT ONLY BE INFLUENCED BY PRODUCER GOVERNMENT PRICING AND SUPPLY POLICIES, BUT WILL ALSO BE AFFECTED BY CONSUMER GOVERNMENT POLICIES ON STOCKS, CONSERVATION, PRICE MANAGEMENT, AND COMPANY GUIDANCE. THERE WAS GENERAL AGREEMENT THAT CONSERVATION POLICIES SHOULD BE PURSUED SO FAR AS THEY ARE CONSISTENT WITH AN ACTIVE WORLD ECONOMY.

5. BECAUSE STORAGE CAPACITY IS BECOMING FILLED, THE SURPLUSES OF AVAILABLE SUPPLY OVER FINAL DEMAND WILL INCREASE PRESSURES ON THE MARKET IN THE THIRD QUARTER OF 1974, WHEN DEMAND IS ALSO AT ITS SEASONAL LOW. IT SHOULD BE NOTED THAT THE MARKET SITUATION MAY WELL BE DIFFERENT FOR VARIOUS PRODUCTS IN VARIOUS MARKETS. THE PROJECTED GAP BETWEEN SUPPLY AND DEMAND WILL HAVE TO BE CLOSED BY REDUCTIONS IN PRICE, OUTPUT, OR BOTH. THIS HAS BEEN THE TENDENCY DURING THE PAST SEVERAL MONTHS, IN WHICH HIGH SPOT AND AUCTION PRICES HAVE BEEN STEADILY DRIVEN DOWN AT THE SAME TIME THAT SOME PRODUCING COUNTRIES HAVE CUT BACK OUTPUT.

6. EVEN IF THE MARKET'S WEAKNESS WERE FULLY RECOGNIZED, OPEC MIGHT HAVE GREAT DIFFICULTY IN PRO-RATIONING PRO-DUCTION CUTS BECAUSE OF THE DIVERGENT ECONOMIC, POLITI-CAL, AND PSYCHOLOGICAL SITUATIONS OF ITS MEMBERS. BUT BECAUSE OF THEIR HIGH REVENUES SEVERAL INDIVIDUAL OPEC STATES ARE NOW CAPABLE OF MAKING SUBSTANTIAL CUTS IN LIMITED OFFICIAL USE

PRODUCTION WITHOUT REDUCING THEIR REVENUE BELOW THEIR ABSORPTIVE CAPACITY. SOME MAY WELL DO SO, THUS COUNTER-BALANCING THE EFFECTS OF EXPANDING PRODUCTION ELSEWHERE.

7. LONG RUN: THERE WAS GENERAL AGREEMENT IN THE GROUP THAT, IF PRESENT PRICES IN REAL TERMS CONTINUE THROUGH 1985, THE DEMAND FOR ENERGY IN 1980-85 SEEMS LIKELY TO FALL WELL SHORT OF PRE-OCTOBER 1973 ESTIMATES, THAT

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

ENERGY PRODUCTION FROM DOMESTIC SOURCES SEEMS LIKELY TO BE SUBSTANTIALLY INCREASED IN SOME MEMBER COUNTRIES FROM PRE-OCTOBER, 1973 ESTIMATES, AND THAT THERE SEEMS LIKELY TO BE A GROWING POTENTIAL SURPLUS OF CRUDE OIL IN THE WORLD MARKET.

8. BY 1980 IF CRUDE PRICES WERE TO REMAIN AT PRESENT LEVELS IN REAL TERMS AND WITHOUT CHANGES IN POLICIES, PRELIMINARY OECD PROJECTIONS INDICATE THAT OECD IMPORTS OF OIL FROM OPEC COUNTRIES WOULD BE LOWER THAN IN 1973. IN FACT, BECAUSE OF THE EXPECTED TIME PATTERN OF PRODUCTION INCREASE WITHIN THE OECD AREAS DURING THE NEXT FEW YEARS, DEMAND FOR IMPORTED OIL AT PRESENT PRICES IN REAL TERMS IS PROJECTED BY THE OECD TO INCREASE TO A PEAK BY 1977-1978 BEFORE FALLING BELOW 1973-74 LEVELS IN 1980. HOWEVER, IT WAS NOTED THAT THESE OECD PROJECTIONS ARE SENSITIVE TO THE ASSUMED LEVEL AND COMPOSITION OF GDP GROWTH, THE TIMING OF PRODUCTION INCREASES AND TO OTHER FACTORS. FOR EXAMPLE, IF THE PROJECTION WERE BASED ON A SLOWER GDP GROWTH THAN THE PRE-OCTOBER 1973 ESTIMATES, THIS HUMP IN DEMAND FOR IMPORTS WOULD BE REDUCED OR ELIMINATED.

9. THE BASIC INTERESTS AND THE TIME HORIZONS OF THE LEADERSHIP IN OPEC MEMBERS - AND POTENTIAL MEMBERS - DIFFER GREATLY IN TERMS OF SUCH MATTERS AS THE AVAILABILITY OF RESERVES AND THE ABSORPTIVE CAPACITY FOR REVENUES. WHILE THIS CREATES SOME UNCERTAINTY AS TO PRICE MOVEMENTS FOR OPEC OIL OVER THE LONGER TERM, OIL PRICES SEEM LIKELY TO FALL SUBSTANTIALLY IN REAL TERMS BY 1985 BECAUSE OF THE EROSION OF THE MARKET FOR OPEC OIL IF IT REMAINS AT PRESENT PRICES IN REAL TERMS. BOTH THE TIMING AND THE DEGREE OF DOWNWARD PRICE MOVEMENTS ARE DIFFICULT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

TO PREDICT.

10. THERE IS HOWEVER A VICIOUS CIRCLE. THIS FALL IN PRICE IS CONDITIONAL ON THE EXPANSION OF ENERGY INVESTMENT IN CONSUMING COUNTRIES. ANY ASSUMPTION THAT PRICES WILL FALL IN REAL TERMS COULD HOWEVER LEAD TO A CANCELLATION OF PRECISELY THOSE INVESTMENT PLANS ON WHICH THIS CONCLUSION IS BASED. ON THE OTHER HAND, A LONG TERM FALL IN PRICE AFFECTED ON THIS BASIS COULD LEAD TO HIGH DOMESTIC ENERGY PRICES BUT LOW WORLD OIL PRICES.

11. CONSUMER GOVERNMENT POLICY ACTIONS COULD HAVE A SUBSTANTIAL EFFECT IN REINFORCING AND STRENGTHENING MARKET FORCES IN REDUCING DEMAND FOR IMPORTED OIL. CONSERVATION POLICIES WILL BE PARTICULARLY IMPORTANT. EN-

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

COURAGEMENT OF DOMESTIC ENERGY PRODUCTION AND OIL PRODUCTION IN NON-OPEC AREAS IS ALSO POTENTIALLY SIGNIFICANT. RESEARCH AND DEVELOPMENT BREAKTHROUGHS LEADING TO MORE EFFECTIVE ENERGY PRODUCTION OR MORE EFFICIENT USE MAY ALSO REINFORCE THESE TRENDS, ESPECIALLY BEYOND 1980. POLICY MEASURES MAY BE IMPORTANT IN PROVIDING INVESTORS WILLING TO GUARANTEE SUPPLY AN ELEMENT OF CERTITUDE THAT THEIR INVESTMENTS WILL NOT BECOME ECONOMICALLY UNATTRACTIVE. ALL THESE SAME POLICY MEASURES WOULD ALSO SERVE TO REDUCE THE VULNERABILITY OF CONSUMING COUNTRIES TO FUTURE SUPPLY INTERRUPTIONS AND REDUCE THEIR LIKELIHOOD.

12. IN VIEW OF THE PROJECTED OUTCOME, THE GROUP CONSIDERS THAT PRODUCERS IN GENERAL AS WELL AS CONSUMERS WOULD BENEFIT IN THE LONG RUN FROM EARLY PRICE REDUCTIONS SO THAT THE LONGER-RUN MARKET FOR OPEC OIL WOULD REMAIN STRONGER AND MORE CERTAIN AND THE WORLD ECONOMY MORE VIGOROUS. BOTH PRODUCERS AND CONSUMERS WOULD ALSO BENEFIT FROM STABLE PRICES WITH REGULAR SUPPLIES AND EARNINGS. THE WORLD WOULD BENEFIT FROM USE OF RESOURCES IN THE MOST EFFICIENT WAYS BY AVOIDING PRODUCTION OF ENERGY FROM VERY EXPENSIVE SOURCES.

ANNENBERG

UNQUOTE SISCO
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

NNN

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ENERGY, PETROLEUM, COMMITTEE MEETINGS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE146074
Document Source: CORE
Document Unique ID: 00
Drafter: EB/ORF/FSE:RWAGMAN
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740180-0094
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740770/aaaacidl.tel
Line Count: 201
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2002 by worrelsw>; APPROVED <19 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REPORT OF THE 6-7 JUNE MEETING OF THE ECG AD HOC GROUP ON INTERNATIONAL OIL MARKET.
TAGS: ENRG, XX, ECG
To: STOCKHOLM
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005